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C O N F I D E N T I A L SECTION 01 OF 02 WARSAW 000384

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SUBJECT: POLAND'S PM USING FINANCIAL CRISIS TO ADVANCE
RESTRUCTURING

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Classified By: CDA Quanrud for reasons 1.4 (b,d)

¶1. (C) Summary. PM Tusk advisor and confidant Michal Boni told Charge and EconCouns April 7 that Tusk is using the economic crisis as an opportunity to advance his restructuring agenda, aimed at producing a harder-working, more innovative Polish economy. U.S. investors and economists here broadly agree that the reforms Boni and his team of young, talented advisors are proposing are necessary but difficult steps to supplement Poland's significant but diminishing low-cost/high-quality labor advantage with home-grown innovation. End Summary.

¶2. (C) PM Tusk confidant and Minister-Without-Portfolio Michal Boni met with CDA and EconCouns on April 17. He laid out GoP efforts to address the global economic crisis both as a short-term problem to be managed and as an opportunity to advance Poland's restructuring into a more innovative, entrepreneurial competitor. Boni and his talented, young strategic planning team have mapped the impact of the crisis in Poland county-by-country, industry-by-industry. The plan they have put together to manage the crisis is arranged around four key elements.

* Unemployment. The government-business-labor Tripartite Commission has agreed on legislative proposals to ease employers' ability to hold on to workers through the crisis, including worker subsidies and limiting short-term work contracts.

* Stimulus. The GoP is shepherding efforts to speed absorption of EU funds. Boni expects that effort to bear fruit in the fourth quarter. Thanks to unstable financial markets, however, the GoP does not believe it can finance a large stimulus program through deficit borrowing.

* Entrepreneurship. The GoP is moving a variety of plans to support small entrepreneurs' own responses to the crisis, including 1) a "Second Chance" program to finance small businesspeople whose concerns have failed thanks to the crisis, 2) creation of a government insurance mechanism for exporters, 3) a legislative package to remove barriers to small business creation, and 4) deregulation in the construction sector.

* Foreign Investment. The GoP will introduce legislation to improve the incentive package built around Special Economic Zones to attract new foreign investment.

¶3. (C) Boni says the PM is also using the crisis as cover to take politically sensitive pension reform a step further. The government is preparing legislation for Round Two of reform, a proposal to extend the age at which military and police workers can retire. (Comment: Adult Poles are less likely to work than other Europeans or Americans, in part because of generous early retirement benefits. Boni, and most economists, view this as a serious obstacle to Polish competitiveness. Round One of pension reform - the Tusk government's signal economic policy accomplishment - extended the retirement age for workers in many industries (nursing, train engineers, etc.) who previously could retire as early as 50. End Comment.)

¶4. (C) Comment and Bio Note. Michal Boni is a Tusk confidant, committed trans-Atlanticist, America's closest friend in the PM's inner circle. While he is Tusk's man on economic and social policy, he is not an economist. He is a human resource management expert by trade, a former Labor Minister, Member of Parliament, and longtime staple of the liberal (European sense), post-Communist center-right. Boni is handling the government's domestic response to the economic crisis while managing its broader effort to restructure the Polish economy into a more efficient, innovative competitor. We understand through Boni and other contacts that he regularly consults a brain trust of informal advisors, many of them economists and most with day jobs outside of the government.

¶5. (C) In this meeting, Boni appeared focused more intently on the post-economic crisis world than on the crisis itself. He is a longtime advocate of economic restructuring aimed at completing Poland's economic transformation from command economy to low-cost manufacturing platform to innovator. His twin priorities of getting more Poles to work while

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building the infrastructure of innovation (particularly in the nexus of universities and businesses) are fully in tune with the prescriptions we hear from U.S. investors, management consultants, and economists.
QUANRUD